

An Analysis of White Label Funds in Public Pension Plans

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What investment funds are pension plan sponsors choosing to offer participants?

White label funds are generic mutual funds not carrying the name of an asset manager.

Advantages

- Flexibility
- Control over fees
- Easier replacement of under-performers
- Simplify menus

Disadvantages

- Sponsor liability
- Operational requirements
- Educate participants
- Tailored communications

We use a database of public sector plans to ask: Do white label funds change investment menus? Do participants respond?

New York State Plan menu mixes white label and manager funds.



DO IT YOURSELF INVESTMENT OPTIONS

Category	Option Name	Investment Option Type	Gross Expense Ratio	Net Expense Ratio*
Stable Income	NYSDCP Stable Income Fund	Custom Fund	0.35%	0.35%
Bond Market Index	NYSDCB US Debt Index Unitized Account	CIT	0.0198%	0.0198%
Bond Fund	Voya Core Plus Trust Fund	CIT	0.23%	0.23%
Balanced Fund	Vanguard Wellington Fund—Admiral	Mutual Fund	0.16%	0.16%
S&P 500 Index (Large-Cap Blend)	NYSDCB Equity Index Unitized Account	CIT	0.0084%	0.0084%
Large-Cap Value	T. Rowe Price Equity Income Trust	CIT	0.33%	0.33%
	Boston Partners Large-Cap-Value Equity Fund	CIT	0.67%	0.67%
Large-Cap Growth	Vanguard PRIMECAP Fund—Admiral	Mutual Fund	0.33%	0.33%
	T. Rowe Price Blue Chip Growth Trust	CIT	0.40%	0.40%
Small/Mid-Cap Index Fund (SMID)	NYSDCB Russell 2500 Index Unitized Account	CIT	0.0225%	0.0225%
SMID Core	Vanguard Strategic Equity Fund—Investor	Mutual Fund	0.18%	0.18%
Small-Cap Value	Delaware Small-Cap Value Fund—Inst.	Mutual Fund	0.96%	0.71%
Small-Cap Growth	T. Rowe Price QM US Small-Cap Growth Equity Fund—Inst.	Mutual Fund	0.66%	0.66%
International Funds	NYSDCP International Equity Active Fund	Custom Fund	0.60%	0.60%
	NYSDCP International Equity Index Fund	Custom Fund	0.20%	0.20%
International Emerging Markets	Morgan Stanley Emerging Markets Portfolio—Inst.	Mutual Fund	0.95%	0.95%

Manager named funds mix with similar white label funds

White label funds are usually fund of funds; may have plan sponsor name.

Contributions of this study ...

Describes a new database of **207 public plans** with plan and participant level observations covering **2.3 million accounts** (Public Retirement Research Lab PRRL);

Find **white label funds are more prevalent in larger plans**, consistent with cost factors;

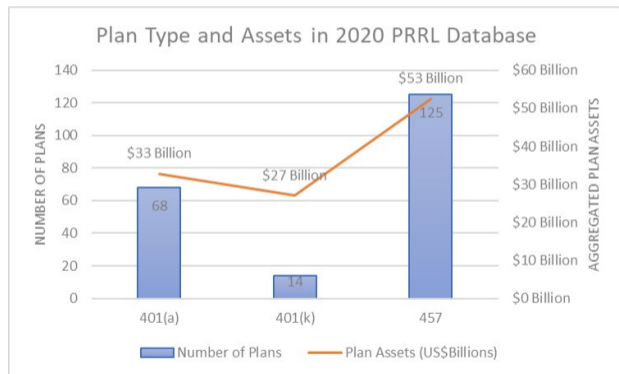
Shows that white label only and mixed investment menus **offer fewer options and fewer fund families**;

Find indications of **small participant level changes in allocations** linked to white label menus.

Public Retirement Research Lab Data

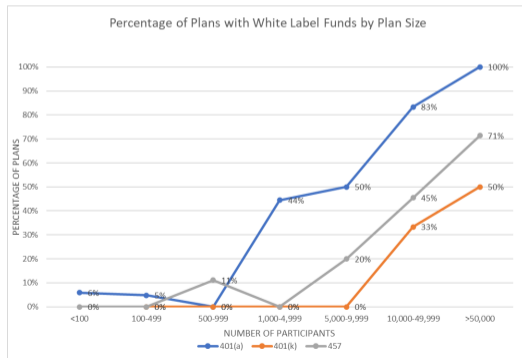
PRRL includes public sector defined contribution plans

2020 data includes 207 (401(a), 401(k) and 457) plans for public sector employers. Participants are adding DC plan(s) to compulsory DB cover.

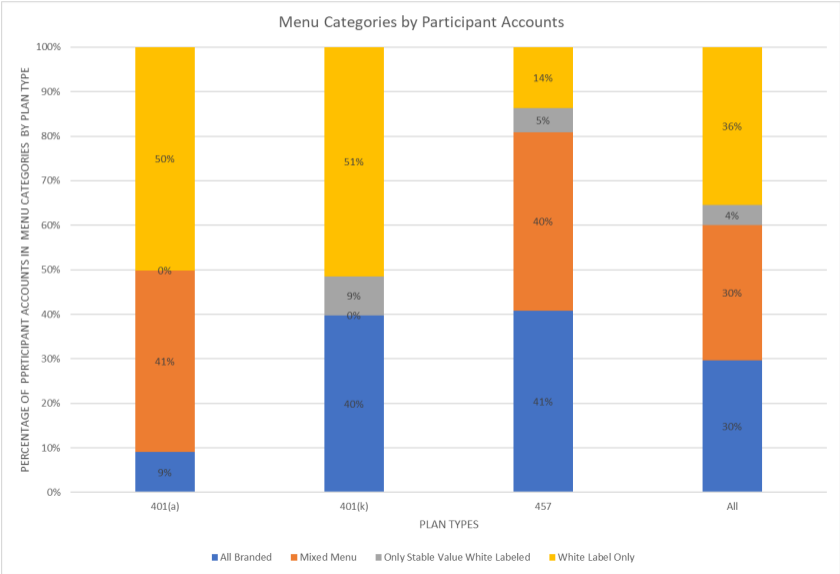


More participant accounts are in large plans with white label funds.

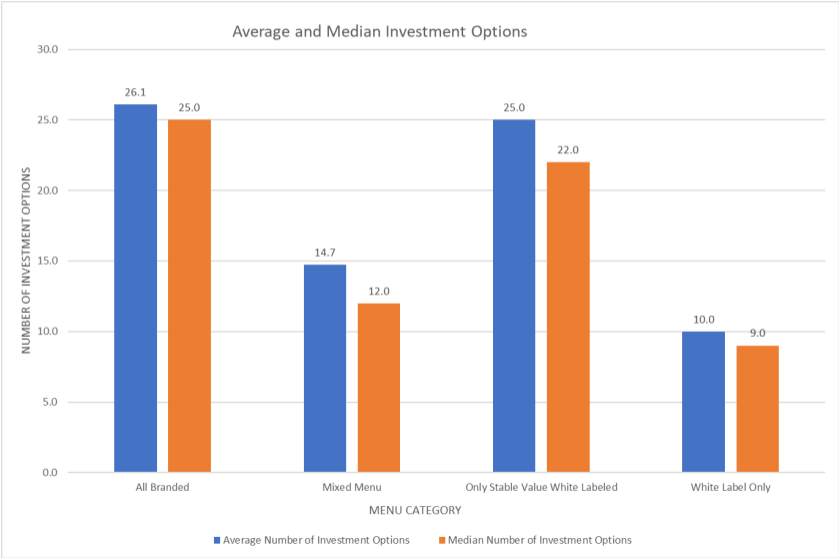
Type of Plan	Number of Participant Accounts	Percentage of Participant Accounts with White Label Fund as an Option	Percentage of Participant Accounts with Employer White Label Fund as an Option
401(a)	789,747	91%	87%
401(k)	567,494	51%	17%
457	943,522	54%	48%
Total	2,300,763	66%	54%



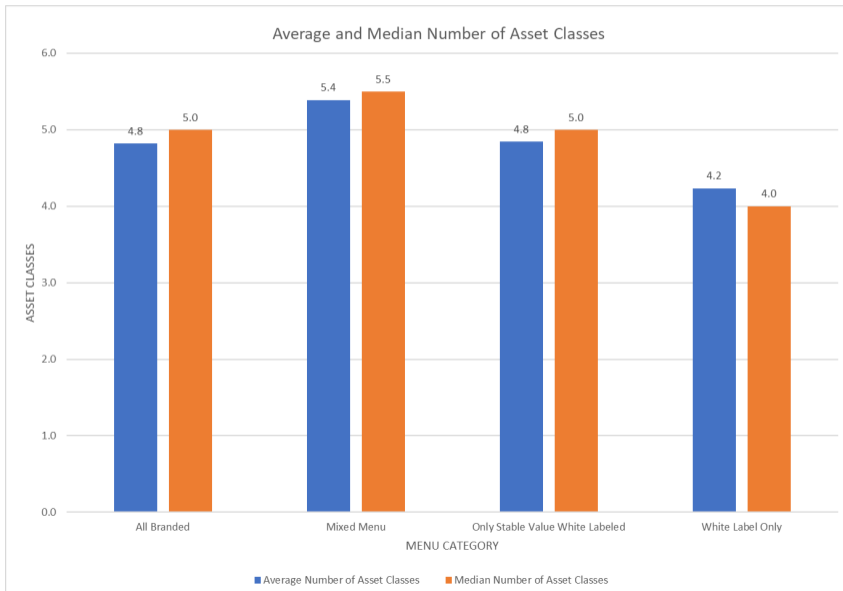
Participant accounts divide between branded, mixed and white label.



Simplification: Fewer options in white label and mixed menu



Diversification: Similar number of asset classes for all types



Plan level summary

Of 207 public plans, **17% include white label funds;**

Large plans have white label options: 66% of participant accounts held in plans with white label options;

Plan investment menus divide into branded only, stable value white label, white label only and mixed investment menus;

White label and mixed menus are simpler and still diversified: **fewer fund options; equal number of asset classes.**

Participant level analysis

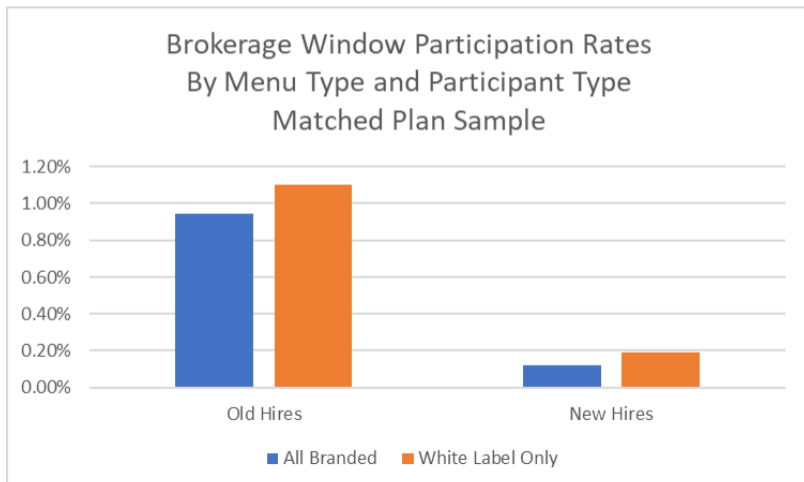
Do participants use self-directed brokerage more in white label funds?

Do participants find white label options are not transparent?

Are participants attracted to asset manager labels?

We match pure white label plans with branded plans and compare participant use of self-directed brokerage.

Percentage of participants using the self-directed brokerage is higher for white label menus.



Linear probability modeling confirms higher SDB use.

Participants in white label funds are 0.38 ppts more likely to use the brokerage window.

Males are 0.65 ppts more likely

Older ages and higher account balance participants are more likely to use the brokerage window

Incumbent participants are more likely to use the brokerage window in white label plans

Summary and Discussion

White label funds are increasingly integrated into plan menus

- Larger plans appear to be able to offer white label funds, possibly because implementation costs are lower
- Menu simplification is linked to white label and mixed menus
- Menus with branded funds offer a wider dispersion of options
- Participant level analysis suggests a limited effect of white label funds on allocations
- Our related experimental study shows the strong influence of trusted manager names on allocations compared with white labels.

Thank you for listening!

Differences in plan types

401(k)

- Mainly private sector employers
- Employees eligible after 1 yr
- Employees elect to participate
- Employer match possible
- More investment options

401(a)

- Govt., educational, charities
- Employees eligible after 2 yrs
- Participation may be mandatory
- Employers must contribute
- Fewer and more conservative investment options

457(b)

- Tax advantaged retirement plan
- Employees from public service and tax-exempt organizations
- Interest and earnings tax exempt until withdrawal
- Employers do not always match
- Contribution limits apply